

THEORY BASE OF ACCOUNTING

MODULE- III

**Theory base
of
Accounting**

**Concepts
&
principles**



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TOPICS TO BE COVERED IN THIS MODULE

- Meaning of Accounting Standard
- Nature of Accounting Standard
- Concept of Accounting Standard
- Objectives of Accounting Standard
- Utility of Accounting Standard
- Limitations of Accounting Standard



MEANING OF ACCOUNTING STANDARD

Accounting Standards are a set of guidelines i.e. Generally Accepted Accounting Principles, that are followed for preparation and presentation of Financial Statements. They are accounting rules and procedures relating to measurement, recognition, treatment, presentation and disclosure of accounting transactions in the financial statement issued by the Council of the Institute of Chartered Accountants of India.

NATURE OF ACCOUNTING STANDARD

Following points highlight the nature of Accounting Standard:

- Accounting Standard are guidelines providing the framework so that credible Financial Statements are prepared.
- The objectives of setting Accounting Standard is to bring uniformity in accounting practices and to ensure transparency, consistency and comparability.
- Accounting Standards are prepared keeping in view the business environment and laws of the country. It, therefore, naturally means that the guidelines change with change in business environments and laws. It is because of this that Accounting Standard are being revised from time to time. It may be noted that whenever a conflicts arises between law and Accounting Standards, law will prevail.

- Accounting Standards are mandatory in Nature
- Accounting standard have also been made flexible in the sense that where alternative accounting practices are acceptable, an enterprise may adopt any of the practices with a suitable disclosure. For example, an enterprise may charge depreciation on the Written down Value Method or Straight Line Method.

CONCEPT OF ACCOUNTING STANDARD

Accounting Standards prescribe the accounting rules and procedures for recognition, measurement, treatment, presentation and disclosure of accounting transactions in financial statements, so that the financial statements are based on common rules and principles for better understanding by the users.

OBJECTIVES OF ACCOUNTING STANDARD

1. Minimise the diverse accounting policies and practices with the aim to eliminate them to the extent possible.
2. Promote better understanding of Financial Statement
3. Understand significant Accounting Policies adopted and applied
4. Facilitating meaningful comparison of financial statement of two or more entries.
5. Enhancing reliability of financial statements.

UTILITY OF ACCOUNTING STANDARD

Accounting Standards serve the following purposes:

1. Accounting Standards provides the norms on the basis of which financial statements should be prepared.
2. Accounting Standards ensure uniformity in the preparation and presentation of financial statements by removing the effect of diverse accounting practices. The application of Accounting standard make financial statement more meaningful and comparable.
3. Accounting standard create confidence among the users of accounting information as Accounting information based on Accounting Standards
4. Accounting standard is considered reliable by users of such information.
5. Accounting standard helps auditors in auditing the accounts. They help accountants to follow uniform practices and policies.

LIMITATIONS OF ACCOUNTING STANDARD

However, there are some limitations of setting of accounting standards:

1. Accounting Standard are manmade. Hence it does not pass the verification test always.

2. Accounting standards are based on business environment and laws of the country. Hence, they change often to meet the changes.

